



XREALITY GROUP LIMITED

xReality Group Limited (ASX:XRG) (xReality) **ACN 154 103 607**

ASX Release
Sydney, Australia – 31st October 2023

Quarterly Activities Report

xReality Group Limited (ASX:XRG) (xReality) is pleased to provide the following Quarterly Activities Report and Appendix 4C for the quarter ending 30 September 2023 together with an Operational Update.

Cash receipts for the quarter totalled \$2,235,906. Positive net cash from operating activities for the period totalled \$43,923. The company invested \$514,990 in Defence and Consumer XR product development and hardware and \$274,772 in capital improvements for its Entertainment Sector. The company repaid \$75,000 against its debt facilities. Closing Cash position at the end of the quarter totalled \$1,049,961.

Operational Update by Business Sector:

Operator XR– Global Enterprise Software and Technology

The company has had a major focus on the United States Law Enforcement and Military markets over the past 3 months. The focused effort and allocation of resources has shown immediate results and once again validated the technologies demand in the region. The following highlighting the rapid growth opportunities for Operator XR on a Global Scale with particular emphasis on the US market.

Operator XR United States:

- **Final Stages of US Dept of Defence proposal with an expected contract value of c. \$5m**
 - Operator XR LLC, has successfully made it through to the final stage of a highly competitive tender process to deliver an XR solution to the US Department of Defence.¹
- **First sale to US Police Agency**
 - On the 24th August, The Company announced a significant milestone with the first Operator XR sale to a Colorado Sheriff's Office.
- **Experienced US Sales team onboarded.**
 - A team of 3 experienced sales managers joined Operator XR in the US on the 11th October.
 - The team has worked together at an industry competitor in US for the past 4 years and have a proven track record in Law Enforcement Virtual Reality system sales across the US.

¹ There is no guarantee this tender will be successful.



XREALITY GROUP LIMITED

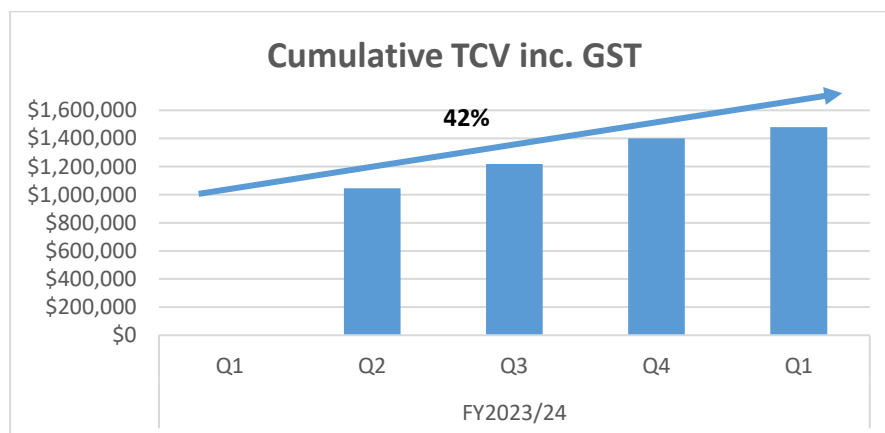
- **US Law Enforcement Sales pipeline significantly increased.**

- Operator XR showcased it's latest de-escalation and tactical systems recently at the largest law enforcement conference in the US, International Association of Chiefs of Police, held in San Diego, California this month.
- This has resulted in a significant growth of potential US deals.²
- Multiple sales expected to be completed within the next 1-3 months.
- Operator XR Sales Pipeline has increased from \$25M to \$31M in the last 2 months.³

Operator XR Australia and APAC:

- Defence and Police paid trial and evaluation programs are underway across the region, including the Australian Defence Force, all are progressing well with positive feedback to date. Completion of trials will occur between Q2 and Q3 FY24. The value of these paid trials has been circa \$100-200K. The expected next steps with these customers will be significantly larger purchases through formal procurement processes occurring late FY24 into FY25.
- A new distributor has been appointed in South East Asia. Multiple customers have been demonstrated to, long and short term opportunities identified, and customer quotes already issued.
- The distributor will be exhibiting Operator XR at the 2023 Asian Defence & Security Exhibition in Thailand, 6-9 November.
- The Western Australia Police Force is now 11 months into the 5 year, \$1.7M contract, training new recruits at the Police Academy and rolling out to regional training centres across the state.

Rapidly Growing Total Contract Value over the first 12 months with a material number of deals expected to close within the next 6 months. Cash receipts through Operator XR has now reached in excess of \$1.34 million since January 2023.



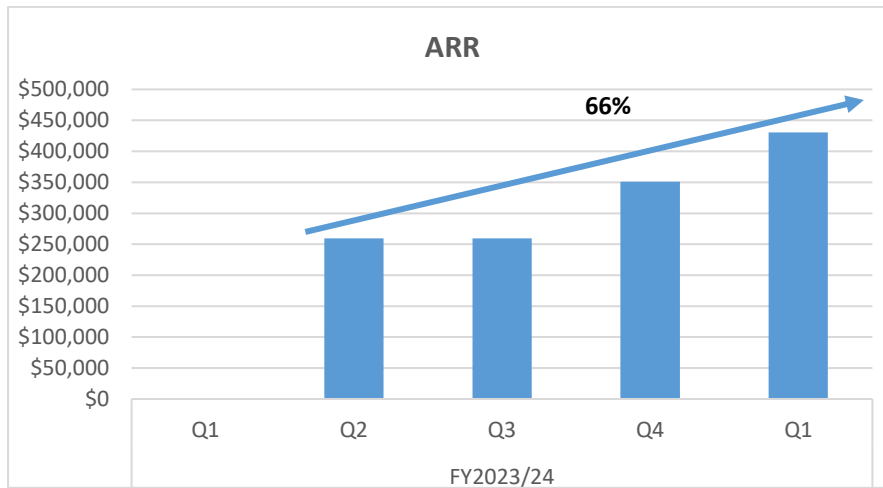
² This not a forecast.

³ The pipeline is indicative only; there is no guarantee the proposed additional sales will be realised.

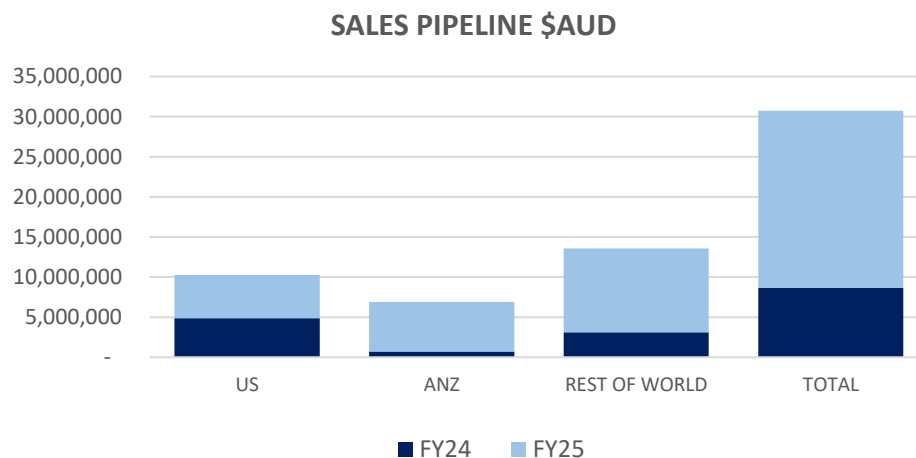


XREALITY GROUP LIMITED

The Annual Recurring Revenue derived from Software licences has increased by 66% over the first 12 months. Current customers include the Australian Defence Force, Australian and United States Police Agencies.



Since August the Sales Pipeline has grown by \$6M and is now \$31M across 60 individual qualified opportunities*. The following chart represents the pipeline of opportunities for conversion to orders over the next two financial years, which represents less than 1% of the Global Total Addressable Market as outlined below.



- The pipeline is indicative only; there is no guarantee the proposed contracts will be executed or that additional sales will be realised.
- The pipeline includes initial contract value only. At this stage the proposed contracts in the pipeline are yet to be executed.
- The pipeline includes all deal stages from qualified opportunities through to proposals being sent and is not risk adjusted.



XREALITY GROUP LIMITED

Addressable Market

The global total addressable market (**TAM**) for Operator XR products in the Law Enforcement and Military markets is approximately \$3.37BN USD Annual Recurring Revenue.

Total Addressable Market	ARR > Market Share Sensitivity (USD\$m)					
	1%	3%	5%	10%	20%	Total Market
Law Enforcement						
United States	2.73	8.19	13.65	27.30	54.61	273.04
Rest of World	4.10	12.29	20.48	40.96	81.91	409.56
Law Enforcement ARR	6.83	20.48	34.13	68.26	136.52	682.60
Military						
United States	10.75	32.24	53.74	107.48	214.96	1,074.80
Rest of World	16.12	48.37	80.61	161.22	322.44	1,612.20
Military ARR	26.87	80.61	134.35	268.70	537.40	2,686.99
Combined						
United States	13.48	40.44	67.39	134.78	269.57	1,347.84
Rest of World	20.22	60.65	101.09	202.18	404.35	2,021.75
Total ARR	33.70	101.09	168.48	336.96	673.92	3,369.59

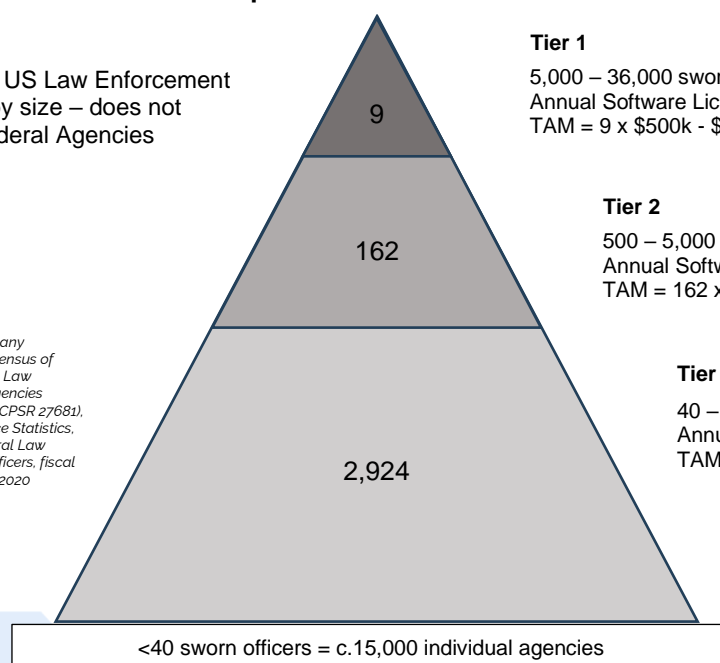
* Source - company research, BLS Census of State and Local Law Enforcement Agencies (CSLLEA), 2008 (ICPSR 27681), Bureau of Justice Statistics, Census of Federal Law Enforcement Officers, fiscal years 2016 and 2020

Operator XR's unique portable system format suits all customer types from military to small police agencies, allowing coverage of the entire market. This includes the huge 'Tier 3' segment of the US Law Enforcement market including nearly 3,000 police agencies with between 40 and 500 officers. This segment is the focus of Operator XR's US Go To Market strategy. These agencies typically have much shorter sales cycles and faster procurement pathways than larger state and federal agencies.

US State and Local Police Departments - Total Addressable Market Segment

Number of US Law Enforcement agencies by size – does not include Federal Agencies

* Source - company research, BLS Census of State and Local Law Enforcement Agencies (CSLLEA), 2008 (ICPSR 27681), Bureau of Justice Statistics, Census of Federal Law Enforcement Officers, fiscal years 2016 and 2020



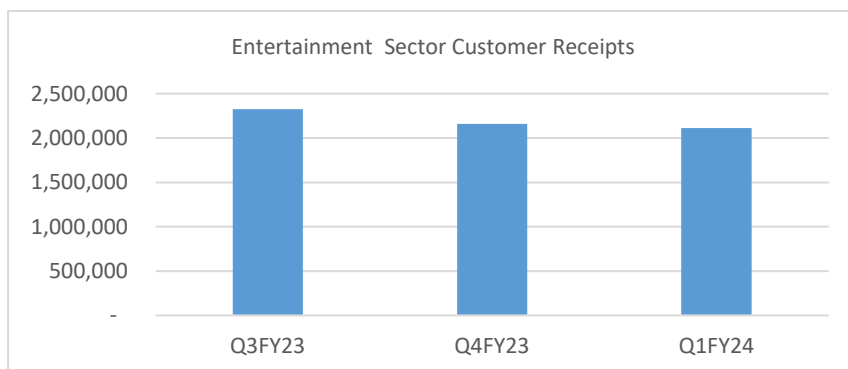


XREALITY GROUP LIMITED

Entertainment Sector

Stability in Retail and Entertainment

XRG's portfolio of Entertainment businesses have continued their stable performance into the new financial year. The operational cashflow through our existing businesses remains cash flow positive and receipts from customers has remained consistent with prior periods and management expectation.



Successful Professional Flyer sale generates over \$500K

In October (not reflected in this report) The company completed a sale to our professional customers at iFLY Downunder (Sydney) and iFLY Gold Coast which generated a further **\$537K** in customer receipts. This was the highest performing sale in the last 5 years showing a strong demand in the product from the professional flyer market.

Corporate

Debt restructure

During the period, the Company successfully restructured its 2 major debt facilities.

- Extension of senior debt facility

XRG's senior debt facility with Causeway Financial, initially set to mature in March 2024 has been extended by 12 months to March 2025. An additional \$500,000 facility was also provided during the quarter to provide working capital reserves.

- Birkdale renegotiation

XRG's secondary debt facility with Birkdale Holdings Pty Ltd, was extended by a further 3 years to September 2027. The facility will remain interest only with an interest rate unchanged at 7.5% and all interest incurred will be capitalised against the loan, improving cashflow by c.\$1.2m over the remaining term of the loan.

Capital Raise

On 17 October 2023, the company announced a successful Institutional placement of a further \$500,000 followed by the launch of a non-renouncement entitlement offer exclusive to Shareholders to raise a further \$3.25 million. \$2 million of the new funds will be allocated for the rapid expansion into the US Market for Operator XR. The remaining funds will be used to reduce debt and provide working capital. The Offer also includes free attaching Options which expire on 31 Jan 2025. The proceeds from the exercise of those options will be used to retire the remaining senior debt facility.



XREALITY GROUP LIMITED

Cash Flow Analysis

Cash receipts for the quarter totalled \$2,235,906. Net cash from operating activities for the period totalled \$43,923. The company invested \$514,990 in Defence and Consumer XR product development and hardware and \$274,772 in capital improvements for its Entertainment Sector. The company drew down an additional \$476,071 and repaid \$75,000 against its debt facilities. Closing Cash position at the end of the quarter totalled \$1,049,961.

Related parties expenses of \$117,593 comprise of salaries and superannuation paid to executive directors and fees paid to non-executive directors.

This announcement is authorised by the Board of Directors.

END

About xReality Group Limited (ACN: 154 103 607)

xReality Group Limited are leaders in enterprise software development for mission critical simulations for military and law enforcement. The company develops and operates physical and digital simulations. Portfolio companies include Indoor Skydiving facilities, Virtual Reality (VR) and Augmented Reality (AR) entertainment, training, and production.

Operator XR provides Military and Law Enforcement agencies with a unique, integrated Mission Planning & Rehearsal System, which is portable, secure and highly immersive. See <https://www.operatorxr.com>

The Company is listed on ASX on under the code XRG.

For further information visit: www.xrgroup.com.au

Wayne Jones, Chief Executive Officer, wjones@xrgroup.com.au
Stephen Tofler, Company Secretary, stofler@xrgroup.com.au

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

xReality Group Ltd

ABN

39 154 103 607

Quarter ended ("current quarter")

30 September 2023

Consolidated statement of cash flows		Current quarter	Year to date (3 months)
		\$A	\$A
1. Cash flows from operating activities			
1.1 Receipts from customers		2,235,906	2,235,906
1.2 Payments for			
(a) research and development		-	-
(b) product manufacturing and operating costs		-558,806	-558,806
(c) advertising and marketing		-134,443	-134,443
(d) leased assets		-10,486	-10,486
(e) staff costs		-1,076,566	-1,076,566
(f) administration and corporate costs		-225,029	-225,029
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		-	-
1.5 Interest and other costs of finance paid		-180,831	-180,831
1.6 Income taxes paid		-1,309	-1,309
1.7 Government grants and tax incentives		86,648	86,648
1.8 Other (creditors from other periods)		-91,159	-91,159
1.9 Net cash from / (used in) operating activities		43,923	43,923
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) entities		-	-
(b) businesses		-	-
(c) property, plant and equipment		-	-
(d) investments		-	-
(e) intellectual property		-	-

Consolidated statement of cash flows		Current quarter	Year to date (3 months)
		\$A	\$A
	(f) other non-current assets	-778,193	-778,193
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-778,193	-778,193

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	476,071	476,071
3.6	Repayment of borrowings	-75,000	-75,000
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (creditor settlement to facilitate debt restructure)	-	-
3.10	Net cash from / (used in) financing activities	401,071	401,071

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,383,160	1,383,160
4.2	Net cash from / (used in) operating activities (item 1.9 above)	43,923	43,923

Consolidated statement of cash flows		Current quarter \$A	Year to date (3 months) \$A
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-778,193	-778,193
4.4	Net cash from / (used in) financing activities (item 3.10 above)	401,071	401,071
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,049,961	1,049,961

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	1,049,961	1,383,160
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,049,961	1,383,160

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A**

59,521

70,286

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

6.1 Directors' fees to non-executive Directors and salaries and superannuation to executive Directors.

6.2 Salaries and superannuation to executive Directors.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
7.1 Loan facilities	3,975,000	3,975,000
7.2 Credit standby arrangements	-	-
7.3 Other (Birkdale Holdings (Qld) Pty Ltd)	4,032,333	4,032,333
7.4 Total financing facilities	8,007,333	8,007,333

7.5 Unused financing facilities available at quarter end

-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Causeway Financial – secured – 14.5%
Birkdale Holdings (Qld) Pty Ltd – secured – 7.5%

8. Estimated cash available for future operating activities	\$A
8.1 Net cash from / (used in) operating activities (Item 1.9)	43,923
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,049,961
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	1,049,961
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date:31/ 10 /2023.....

Authorised by:.....
(By the board)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.